

FSC-107-A		6/17/96	
SUBJECT: Forsyth Private Label Restructure			
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When receiving feedback from many of our Private Label partners, a consistent concern is voiced. While the accounts agree that our overall PL program is competitive, especially when considering the "bundling" concept, the price they can play on the street sometimes is not.

To answer these concerns, we are pleased to announce several modifications to our Forsyth Private Label program effective July 1, 1996. These changes affect both our wholesale and retail contracted partners and adds flexibility to their overall program. Note that these changes do not affect the MONARCH/BEST VALUE EDLP program as communicated in your 1996 Sales and Marketing Operating Plan.

Changes:

1. Flexibility to increase off invoice amount to \$2.30 per carton maximum by shifting all presently available Alliance Accrual/monthly rebates to off invoice. Please make every effort to have your contracted accounts changed to this amount.
2. Guarantee \$.25 of the maximum \$.50 semiannual Private Label Share of Category per carton available presently. This guaranteed \$.25 SOC payment plus an additional \$.05 we are adding to our program (\$.30 total) will be reflected in the respective accounts Alliance Accrual Fund effective July 1.
3. The remainder of the semiannual Share of Category payment the account may earn (maximum \$.25) will continue to be paid based on every calendar six month performance. Since we are guaranteeing \$.25 SOC payment as stated in #2 above, the additional payouts will be based on the schedules below:

Wholesale Contracted Partners - will earn 1¢ per Share of Category starting at 26% share and max out at \$.25 for a 50% share paid semiannually.

Retail Contracted Partners - will earn \$.10 per carton upon attaining a 50% to 74% Share of Category or \$.25 upon attaining a 75%+ Share of Category paid semiannually.

Rationale for Changes:

1. The increase in off invoice to a max of \$2.30 enables our contracted partners to be competitive in their everyday street price. If all \$2.30 is not needed in all of the accounts locations, the increased off invoice has the effect of increased margins. The contracted partner will however have the built in flexibility to lower prices on a situation by situation basis if competitive pressure heats up.

Additionally, we have a number of accounts that are clearing out their Accrual Accounts every month. This increase in off invoice should decrease the need for this, reducing the administrative burden on you and our Customer Financial Services Department.

Finally, the contracted customer receives the benefit of this extra \$.30 per carton upon ordering the PL product instead of having to wait until month's end.

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2. By guaranteeing a minimum Share of Category payout and placing it into the contracted accounts Alliance Accrual Fund monthly, we accomplish several objectives:
 - Some accounts, especially wholesalers are presently earning less than \$.25 per PL carton. This change along with the extra \$.05 per carton effectively gives those accounts a lower net cost.
 - Accounts that presently use some or all of their SOC monies in the pricing of their PL product will be able to recapture up to \$.25 of that amount monthly.
 - Accounts that do not need to use any of their SOC in pricing will be able to request it through their Alliance Accrual fund monthly, thus having the benefit of these monies much quicker.
3. By continuing to pay the remainder of an account's SOC earnings semiannually upon qualifying, we continue to build in profit for those accounts that rely on it for margins. Also, keep in mind that our DORAL SOC program announced for Retailers only in FSC-189A, dated 12/18/95, is still in place and remains unchanged.

Enclosed is a "**Confidential - Do Not Copy**" Forsyth PL Pricing example showing a standard pricing example, before and after 7/1/96 (Attachment I). This is for your information only to better answer any questions you may have. Due to state fair trade laws which apply to direct accounts physically located in the states of Maryland, Minnesota, Montana, Nevada, Tennessee and Wisconsin alternate pricing is available. If you have any questions regarding this you should call your Customer Financial Services Rep or your AMO.

Attached is a Pricing Restructure Agreement form (Attachment II) you must fill out when making changes with your PL accounts. Upon reaching concurrence with your accounts, you should fax this form back to Customer Financial Services with the effective shipping date completed. Please allow two weeks from fax date to effect change. Also, remember in changing off invoice rates for retail contracted customers that their wholesalers will have inventory at the lower off invoice, thus a higher cost to them. Refer to FSC-189A for options in handling this residual product.

Finally, the change in the SOC program along with the additional \$.05 per carton will be automatically reflected in accounts' Alliance Accrual statements received in August for the month of July. This requires no action on your part except to notify your accounts. It is extremely important that you present, and they thoroughly understand this change prior to July 31, 1996, to eliminate any problems that could otherwise occur when the supplemental 2nd half 1996 SOC payout is made.

We feel strongly that these adjustments to our Private Label programs will address the majority of concerns our PL partners may have. However, if you uncover any others or have any questions, please contact your Sales Area Manager of Operations.

R. J. REYNOLDS TOBACCO COMPANY

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Forsyth Tobacco Products**Pricing Restructure Agreement**

Effective with shipments beginning _____, 1996, I hereby authorize Forsyth Tobacco Products to increase my per carton Off-Invoice amount or the equivalent thereof on _____ to:

\$ _____ (\$2.30 max) Private Label Brand

\$ _____ Monthly Rebate

\$ _____ Alliance Accrual

\$2.60 Above lines must add to this amount.

I understand that \$.25 of my previous semiannual Share of Category payment is being placed into my Alliance Accrual Fund monthly. The remainder, upon qualifying, will continue to be calculated and paid semiannually.

Account Name: _____
(Please Print)

Customer Service Number: 999 _____

Authorized Account Signature: _____

RJR Representative Name: _____
(Please Print)

Division Number: _____

RJR Representative Fax: _____
(Customer Services will use to notify you of confirmed start date)

FAX TO: 1-910-741-2156
ATTENTION: Forsyth Tobacco Customer Services

To Be Filled In By Customer Services Confirming Effective O/I Change Date

Confirmed Effective Ship Date

Customer Services Rep _____ **Ext. #** _____

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"CONFIDENTIAL - DO NOT COPY"**Forsyth Direct Account PL Pricing Structure**

	<u>Present</u>	<u>Effective 7/1/96</u>
List	\$9.19	\$9.19
Terms	- .30	- .30
Off-Invoice	\$2.00 (max allowable)	① -2.30 (max allowable)
EFT	- .04	- .04
Alliance Accrual	- .30	② - .30
PL Share of Category (semiannual)	- .50	③ - .25
Partners (average)	- <u>.21</u>	④ - <u>.21</u>
NET	<u>\$5.84</u>	<u>\$5.79</u>

- ① Maximum allowable O/I increases by \$.30 taken from existing AA/Monthly Rebate.
- ② New Alliance Accrual of \$.30 is derived by taking \$.25 of semiannual share of category to monthly AA and Forsyth adding another \$.05 to program. 1st \$.25 SOC and extra \$.05 are now guaranteed.
- ③ PL Share of Category semiannual payment is now a max of \$.25 since the 1st \$.25 is placed in AA fund monthly.

Guidelines for earning extra \$.25 SOC semiannually:

Wholesale Contracted Accounts = \$.01 per share point of Savings from 26% -50% max.

Retail Contracted Accounts = \$.10 for share of Savings between 50-74% or \$.25 for share of Savings at 75%+.

- ④ Partners amount of \$.21 is an average and for illustration purposes only.

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